

[illegible]

With
6 mos

1977 ANNUAL REPORT

POLYCOM SYSTEMS LIMITED

DIRECTORS:

David A. Bennett
Vice-President
Helix Investments Limited

Christopher D. Hyde
Manager, Savings Services
Credit Foncier

Michel M. Lessard
Assistant General Manager
Credit Foncier

Michael J. Needham
President
Sterisystems Limited

Albert B. Ormsby
President
PolyCom Systems Limited

Robert L. Shirriff
Partner, Fasken & Calvin
Barristers & Solicitors

Kenneth W. Soehner
Controller
Helix Investments Limited

Donald C. Webster
President
Helix Investments Limited

OFFICERS:

Albert B. Ormsby
Chairman of the Board &
President

E. James Gougeon
Vice-President, Operations

Aramis L. Francescut
Vice-President, Sales

Robert L. Shirriff
Secretary

AUDITORS:

Deloitte, Haskins & Sells

REGISTRAR AND TRANSFER AGENT:

Royal Trust Company

To Our Shareholders:

Fiscal 1977 was an excellent year for your Company and it gives me great pleasure to report to you on its financial performance and activities.

The strong growth in revenues in the first half of the fiscal year continued throughout the balance of the year with the result that revenues for 1977 of \$1,986,358 represented a gain of approximately 33% over those of \$1,485,120 in 1976. Total expenses for 1977 were lower than those of 1976 and the combination of higher revenues and reduced expenses resulted in income before extraordinary items of \$208,928 in 1977 as opposed to a loss of \$184,665 in 1976. Net income after application of tax losses was \$401,428 in 1977 as compared to a net loss of \$275,634 for the previous year.

Basic income per common share after extraordinary items and after allowance for one year's dividends on preference shares, using the weighted average number of shares outstanding during the year, was \$0.23 in 1977 as compared to a loss of \$0.34 in the previous year. Basic income per common share after extraordinary items and after such allowance for unpaid dividends was \$0.51 in 1977 as compared to a loss of \$0.48 in the previous year.

Funds provided from operations in 1977 were \$729,700 representing a substantial increase over those of \$222,575 in 1976. As a result, the Company's financial position was strengthened considerably.

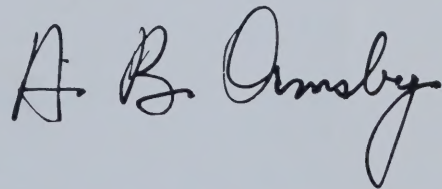
The significant improvement in performance was due to a number of factors. Increasing use of our facilities by our customers allowed us to operate at close to capacity levels. Applications software was modified to consume less machine resources and efficiencies were introduced into our operating software. The number of personnel remained virtually unchanged and performed more effectively due to additional training and another year of on-the-job experience. While expenses were maintained at reasonable levels, our customers continued to be provided with good service. A number of them on short-term agreements converted to new agreements which give your Company the privilege of providing remote computing services to these customers for extended periods of time.

I mentioned in my interim report of fiscal 1977 that your Company was embarking on a major marketing campaign for its application package, RAPS (Reporting and Planning System). This campaign is now fully underway and the response to date suggests that our expectations for the success of this product will be fully met. A number of seminars have been given by PolyCom personnel to prospective customers and the ease of usage and low cost features of RAPS in the areas of financial planning and corporate modelling are now being recognized by

a growing number of both new and existing PolyCom customers. As our accounting application packages become more refined, marketing efforts are being intensified in this area in order to maximize total revenues from internally-developed software. Also, arrangements are being made with outside software experts for the provision of additional software items primarily for use as COBOL development tools. The availability of an extensive range of internally-developed and externally-acquired software packages and tools should provide a solid base for PolyCom's marketing efforts in fiscal 1978 and in future years.

I believe that your Company is now well-situated both from a financial and operational point of view to avail itself of the opportunities which are present in the remote computing services and related industries. At the present time your Company is well into fiscal 1978 and is maintaining a good level of performance. Arrangements are being made for the acquisition of additional hardware and a significant operating software upgrade is in the final stages of completion. These hardware and software improvements are expected to provide substantial additional capacity to our computer installation at minimum additional cost per unit of throughput.

PolyCom's present position has not been easy to attain and its success has been due to the strong support of our customers, our suppliers and the PolyCom staff. I wish to extend a special note of thanks to Honeywell Information Systems and its fine personnel. As the Company's major supplier of hardware, they have provided valuable assistance and support. I now have had the privilege of being associated with the PolyCom staff for several years and wish to extend my sincere thanks to them. Without their dedicated efforts, the excellent performance of 1977 would never have been achieved.



A.B. Ormsby, President
January 13, 1978

POLYCOM SYSTEMS LIMITED

(Under The Business Corporations Act, Ontario)

Consolidated Balance Sheet

as at **SEPTEMBER 30, 1977**

(With 1976 Figures for Comparison)

	ASSETS	1977	1976
Current Assets:			
Cash		\$ 62,160	\$ 41,695
Deposit receipts		345,679	-
Accounts receivable		199,782	220,975
Prepaid expenses		1,860	2,724
Total current assets		609,481	265,394
Fixed Assets (Note 2)		2,753,643	2,750,299
Less accumulated depreciation and amortization		1,088,505	760,233
Net fixed assets		1,665,138	1,990,066
Total		\$2,274,619	\$2,255,460

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:			
Accounts payable and accrued charges		\$ 115,893	\$ 106,242
Long-term liabilities due within one year (Note 3)		695,089	506,829
Total current liabilities		810,982	613,071
Long-term Liabilities (Note 3)		756,355	1,336,535
Shareholders' Equity:			
Capital stock (Note 4):			
Authorized:			
300,000 preference shares with a \$5.00 par value issuable in series			
1,500,000 common shares of no par value			
Issued and fully paid:			
140,000 7-1/2% cumulative redeemable convertible preference shares with a \$5.00 par value, Series A		700,000	700,000
689,808 common shares		1,919,517	1,919,517
		2,619,517	2,619,517
Deficit		1,912,235	2,313,663
Net shareholders' equity		707,282	305,854
Total		\$2,274,619	\$2,255,460

Approved by the Board:

Albert B. Ormsby Director

Christopher D. Hyde Director

To the Shareholders of PolyCom Systems Limited:

We have examined the consolidated balance sheet of PolyCom Systems Limited as at September 30, 1977 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
December 14, 1977.

Deloitte, Haskins & Sells
Chartered Accountants

Auditors' Report

Consolidated Statement of Income and Deficit

FOR THE YEAR ENDED
SEPTEMBER 30, 1977

(With 1976 Figures for
Comparison)

	1977	1976
Data Processing Revenue	\$1,986,358	\$1,485,120
Expenses:		
General, administrative and operating	1,117,220	1,086,632
Interest on long-term liabilities	145,591	177,397
Depreciation and amortization	328,272	407,240
Interest earned	(6,153)	(1,484)
Total expenses	1,584,930	1,669,785
Income (Loss) before Income Taxes and Extraordinary Items	401,428	(184,665)
Provision for Income Taxes	192,500	-
Income (Loss) before Extraordinary Items	208,928	(184,665)
Extraordinary Items:		
Loss on sale of computer G440	-	(90,969)
Realization of income tax reductions on the carry-forward of a tax loss	192,500	-
Net Income (Loss) for the Year	401,428	(275,634)
Deficit at Beginning of the Year	2,313,663	2,038,029
Deficit at End of the Year	\$1,912,235	\$2,313,663
Income (Loss) Per Common Share (Note 6):		
Basic:		
Before extraordinary items	\$.23	\$ (.34)
After extraordinary items	\$.51	\$ (.48)
Fully diluted:		
Before extraordinary items	\$.20	\$ (.34)
After extraordinary items	\$.44	\$ (.48)

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED
SEPTEMBER 30, 1977

(With 1976 Figures for
Comparison)

	1977	1976
Funds Provided:		
From operations:		
Net income (loss) before extraordinary items	\$ 208,928	\$ (184,665)
Items not involving funds:		
Depreciation and amortization	328,272	407,240
Income taxes eliminated by the carry-forward of a tax loss	192,500	-
Funds provided from operations	729,700	222,575
Sale of equipment	-	55,299
Total funds provided	729,700	277,874
Funds Applied:		
Additions to fixed assets	3,344	269
Reduction in long-term liabilities (Note 3)	580,180	440,498
Total funds applied	583,524	440,767
(Decrease) Increase in Working Capital Deficiency		
During the Year	(146,176)	162,893
Working Capital Deficiency at Beginning of the Year	347,677	184,784
Working Capital Deficiency at End of the Year	\$ 201,501	\$ 347,677

The accompanying notes are an integral
part of the financial statements.

POLYCOM SYSTEMS LIMITED

Notes to the Consolidated Financial Statements September 30, 1977

1. Summary of Significant Accounting Policies

(i) Basis of statement presentation:

The accompanying financial statements include the accounts of Equity Control Limited, a wholly-owned subsidiary company.

(ii) Depreciation and amortization:

Depreciation and amortization of fixed assets, which are stated at cost, are computed on a monthly basis using the straight-line method at rates based upon the estimated useful lives of classes of assets.

Gains or losses on the disposal of fixed assets are included in the statement of income and deficit.

2. Fixed Assets

Fixed assets are comprised of the following:

	<u>1977</u>	<u>1976</u>	Depreciation Rates
Computer H6060.....	\$2,409,164	\$2,409,164	(See below)
Furniture and equipment.....	231,756	228,607	10%
Leasehold improvements.....	112,723	112,528	Term of lease
Total cost.....	2,753,643	2,750,299	
Less accumulated depreciation and amortization.....	1,088,505	760,233	
Net fixed assets.....	\$1,665,138	\$1,990,066	

Since October 1, 1974, the Computer H6060 is being amortized equally over a period of seven years to a 15% residual value.

3. Long-term Liabilities

The long-term liabilities of the company are as follows:

	<u>1977</u>	<u>1976</u>
Debt:		
Computer H6060 conditional purchase agreement, interest at 10% plus monthly principal instalments of approximately \$31,000. There is also payable in fiscal 1978 \$130,000 of principal which was deferred in 1977. The deferred amount bears interest at 11-1/2%.....	\$1,344,854	\$1,686,284
Non-interest-bearing note issued on settlement of lease agreement payable \$2,400 monthly.....	45,600	67,200
	1,390,454	1,753,484
Payments outstanding under lease agreement — \$3,210 monthly until 1978.....	60,990	89,880
	1,451,444	1,843,364
Less amounts due within one year and included in current liabilities.....	695,089	506,829
Total long-term liabilities.....	\$ 756,355	\$1,336,535

4. Capital Stock

Series "A" preference shares:

The Series A preference shares are redeemable at the amount paid up thereon plus unpaid cumulative dividends (\$262,500 as at September 30, 1977) and a 1% premium if called for redemption up to May 31, 1978. Such shares are convertible, prior to redemption, into common shares of the company on a one-for-one basis with provision for adjustment of the conversion factor, in certain events, to May 31, 1982. Each Series A preference share has equal voting rights with common shares until all outstanding cumulative dividends have been paid.

Common shares:

The company holds 10,000 common shares as treasury stock at a cost of \$35,000.

Stock options:

As partial consideration given under several agreements, the company has granted stock options. Details of the stock options outstanding are as follows:

<u>Number of Shares</u>	<u>Option Price</u>	<u>Expiry Date</u>
15,000	\$1.00	February 28, 1979
25,000	\$1.00	February 28, 1979
45,000	\$.25	September 30, 1979

The options for the 25,000 and 45,000 shares are exercisable in annual instalments (42,000 in 1977, 14,000 in 1978 and 14,000 in 1979), such options being cumulative but subject to expiration in conjunction with the termination of services.

5. Income Taxes

The undepreciated capital cost of equipment, for income tax purposes, exceeds the net book value by \$1,033,861 as at September 30, 1977. This excess and the future payments under the lease commitment for the unused facilities of \$60,990 as at September 30, 1977 are available for reduction of future taxable income.

The company also has capital losses of approximately \$212,500 which are available indefinitely to apply against future taxable capital gains.

The reduction in income taxes resulting from the foregoing items will be recorded in the year of realization.

6. Income (Loss) per Share

Income (loss) per share has been calculated using the weighted average number of shares outstanding during the year and after providing for cumulative dividends on preference shares for the current year.

7. Contractual Obligations

The company is committed:

- to annual rentals on leased premises of approximately \$77,500 to 1982.
- to payments of \$90,000 per annum, under licencing agreements for technical services, subject to cancellation on thirty days notice, and
- to payments under various leases for essential computer equipment of approximately \$122,000 per annum.

8. Remuneration of Directors and Senior Officers

Remuneration of senior officers, as defined by The Business Corporations Act, Ontario, for the current year amounted to \$176,975 (1976 - \$140,080). No remuneration was paid to the directors.

POLYCOM SYSTEMS LIMITED

133 WYNFORD DRIVE, DON MILLS, ONTARIO M3C 1K1 (416) 449-3400